

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE**

IN THE MATTER OF THE APPLICATION OF)	
SUEZ WATER DELAWARE, INC.)	
FOR A GENERAL INCREASE IN RATES)	PSC DOCKET NO. 16-0163
AND FOR A REVISION OF ITS GENERAL)	
TARIFF (FILED FEBRUARY 5, 2016))	

DIRECT TESTIMONY OF

TONI M. LOPER

ON BEHALF OF THE STAFF OF THE

DELAWARE PUBLIC SERVICE COMMISSION

NOVEMBER 18, 2016

1 **Statement of Qualifications**

2

3 **Q: Please state your name and the name and address of your employer.**

4 A: My name is Toni M. Loper. I am employed by the Delaware Public Service
5 Commission (the “Commission” or “PSC”). My business address is 861
6 Silver Lake Boulevard, Suite 100, Dover, Delaware, 19904.

7

8 **Q: What is your position with the Public Service Commission?**

9 A: I am a Public Utility Analyst II with the Commission. I have been employed
10 with the Commission since June 2012.

11

12 **Q: As an analyst with the Commission, what is the general nature of your**
13 **duties?**

14 A: My duties and responsibilities with the Commission include serving as a team
15 member or case manager for various Commission dockets including; review
16 of filings by regulated utilities that propose increases in rates and charges,
17 participating in the audit of regulated companies, including the review of
18 source documents; performing reviews of various utility applications and
19 including electric supplier certifications, securities and debt issuance
20 applications; assist senior Staff with the preparation of schedules and
21 documents; review the Commission’s regulations and make recommendations
22 for changes to regulations regarding the certification of electric suppliers.
23 Additionally, I am tasked with examining monthly, quarterly, and annual
24 reports for regulated companies; as well as, the review of supporting
25 documentation to evaluate and make recommendations to the Commission
26 regarding the technical, operational, managerial, and financial condition of a
27 company; and other tasks assigned by management.

28

29 **Q: What is your educational background?**

30 A: I received a Bachelor of Science Degree in Accounting, with a Minor in
31 Business Administration from the University of Maryland University College

1 in 2012. Additionally, since I have been employed with the PSC I have
2 completed the National Association of Regulatory Utility Commissioners
3 (“NARUC”) Eastern Utility Rate School in Florida, Camp NARUC Annual
4 Regulatory Studies program at Michigan State University, The Institute of
5 Public Utilities at Michigan State University Grid School, and EUCI’s
6 Witness preparation course.

7
8 **Q: For whom are you testifying in this proceeding?**

9 A: I am testifying on behalf of the Commission Staff (“Staff”).
10

11 **Q: What is the purpose of your testimony?**

12 A: The purpose of my testimony is to present Staff’s recommendations on certain
13 adjustments proposed by SUEZ Water Delaware, Inc. (“SWDE”) for
14 ratemaking purposes, specifically adjustments concerning purchased water,
15 rate case expenses, the Delaware River Basin Charge (“DRB Charge”)
16 adjustment, antenna revenues, and vehicle leasing.
17

18 **Q: What was your specific assignment in this case?**

19 A: I was assigned as the co-case manager to review SWDE’s Application for a
20 general rate increase in its water rates. I was tasked with the review and
21 analyze several general, administrative and expense accounts. I reviewed
22 SWDE’s testimony, exhibits, and responses to data requests to determine if
23 those expenses were appropriate for inclusion in SWDE’s revenue
24 requirement and if those amounts should be charged to ratepayers.
25 Additionally, I will present my findings regarding SWDE’s request for a
26 change in methodology for allocating antenna revenue.
27

28 **Q: What adjustments are you sponsoring?**

29 A: I am recommending adjustments to remove certain claimed purchased water
30 costs, as well as adjustments to the Company’s proposed Delaware River

1 Basin Charge (“DRB Charge”), rate case expense, and antenna revenue
2 allocation.

3
4 **Q: Have you prepared schedules to accompany your testimony?**

5 A: Yes. I prepared Schedules TLM -1 through TLM 4. Schedules TLM-1 through
6 TLM-3 provide a summary of my recommended adjustments to operating
7 expenses. My recommendation concerning the allocation methodology of
8 antenna revenues is presented on Schedule TLM-4.

9
10 **Purchased Water**

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12 **Q: Please explain the context for the adjustment you are recommending to**
13 **SWDE’s claimed purchased water expense.**

14 A: SWDE included in pro forma operation & maintenance expenses (“O&M”) an
15 adjustment of \$260,000 to reflect the additional costs that it expects to incur
16 for purchased water from the City of Wilmington under a contract from the
17 Hoopes Reservoir (the “Hoopes Contract”). This adjustment was later
18 changed to \$320,000 to account for the settlement of a one (1) year contract
19 between the Company and the City of Wilmington.

20
21 **Q: Please describe the Hoopes Contract.**

22 A: This contract is for the purchase of water by the Company from the City of
23 Wilmington to reserve 50 million gallons of raw water from the Hoopes
24 Reservoir, if needed by the Company, in emergency situations or times of
25 drought. I reviewed Mr. Loy’s Direct Testimony in support of the proposed
26 contract cost adjustment. I also reviewed SWDE’s responses to data requests
27 seeking clarification on the current status of the negotiation of the contract. In
28 the Company’s response to PSC-PW-1 and DPA-1.51, the contract has been
29 renewed for one (1) additional year, which extends the contract through
30 December 31, 2016. The parties, however, are still in negotiations for a plan
31 going forward and after the end of the one (1) year contract extension. To this

1 date, Staff has not received any additional information from the Company that
2 this status has changed.

3
4 **Q: What do you recommend?**

5 A: Staff's recommendation is that the adjustment of \$260,000 for the Hoopes
6 Contract be rejected. The cost of purchased water through the Hoopes
7 Contract after December 31, 2016 is not known and measurable. Therefore,
8 Staff recommends a downward adjustment to purchased water expense of
9 \$154,297 net of taxes. (See Schedule TML-1)

10
11 **Delaware River Basin Charge**

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13 **Q: Are you recommending an adjustment to SWDE's claimed Delaware**
14 **River Basin Charge?**

15 A: Yes.

16
17 **Q: Please explain the DRB Charge.**

18 A: In the Application, SWDE included an adjustment to recover the cost of a
19 charge from the Delaware River Basin Commission ("DRB Commission") of
20 \$300,000, amortized over 15 years. As described in Mr. Loy's Direct
21 Testimony, the DRB Charge is a charge levied by the DRB Commission. The
22 DRB Commission is a federal-interstate compact agency in charge of
23 managing the water resources of the Delaware River Basin through a compact
24 between it and the states of Delaware, New Jersey, New York, and
25 Pennsylvania. According to the Company's response to data requests PSC-
26 DRBC-1 through PSC-DRBC-2, and DPA-1.59, the DRB Commission
27 promulgated water supply charge regulations which established a schedule of
28 charges for surface water withdrawals. The Company was issued an

1 exemption from the DRB Commission in 1976¹ and, therefore, was exempt
2 from these charges. In mid-2000 the Company underwent a merger, however,
3 whereby a change of ownership was effected of United Water Delaware, Inc.
4 (“UWDE”) which terminated the certificates of entitlement and the exemption
5 of the DRB Charge. In July 2014, the DRB Commission notified the
6 Company that due to the change in control the exemption had terminated and
7 that UWDE, which is now SWDE, owed supply charges from the period of
8 July 2000 to present.
9

10 **Q: What adjustment are you recommending to the DRB Charge?**

11 A: Staff’s recommendation is twofold: First, recovery of these past charges in
12 rates now violates the matching principle, because they are charges that were
13 not incurred within the test period. This Commission’s policy is that expenses
14 that occur outside of the test period constitute retroactive ratemaking. The
15 Commission addressed this issue in Order No. 8959, dated August 5, 2014,
16 (PSC Docket No. 13-115):

17 “We adopt the Hearing Examiner’s recommendation that Delmarva’s
18 proposed adjustment constitutes retroactive ratemaking...we note that
19 there is no legislative authority authorizing Delmarva to collect these
20 out-of-period costs, and Delmarva admits that it did not seek or receive
21 our approval to defer these costs on its books and records for
22 subsequent rate recovery.”²

23 Second, in 1994 the Company was aware that the change in ownership
24 affected the status of its exemption of this charge, just six (6) years later when
25 the UWDE entered into the transaction for a change of ownership or control
26 they should have proactively engaged in securing the exemption.
27 Additionally, the Company was notified of the loss of the exemption status by
28 the DRB Commission in July 2014, at any point since that notification the

¹ The Delaware River Basin Commission issued Certificate of Entitlement Nos. 141 and 142 to Wilmington Suburban Water Company in 1976, amended Certificates of Entitlement Nos. 385 and 386 were issued to United Water Delaware in 1994 after a corporate transaction.

²See PSC Order No. 8589, ¶ 124.

Company Therefore, it is inappropriate to charge these amounts to ratepayers. Staff recommends that they be disallowed. Staff's recommendation is a downward adjustment to reverse the \$260,000 expense adjustment claimed by SWDE. (See Schedule TML-2)

Rate Case Expense

Q: What has SWDE included in its proposed revenue requirement for rate case expenses associated with this proceeding?

A: SWDE has estimated the cost of this proceeding to be \$460,000, and requested a four (4) year amortization allowance in rates. The estimates include the following projected costs: legal costs of \$100,000, Rate of Return Studies cost of \$30,000, Consultant costs of \$200,000, PSC charges of \$110,000, and Other Rate Case Expenses of \$20,000. The chart below, which was provided by the Company as a part of Mr. Loy's Direct Testimony in Minimum Filing Requirements ("MFRs") Schedule 5.3.13, provides a breakdown of actual costs incurred by SWDE in each of its previous three (3) rate cases.

SCHEDULE OF RATE CASE EXPENSE AMORTIZATION						
Line No.	Rate case	Total Expense	Opinion/Order Date	Amortization Period (Months)	Amount Amortized to Date	Write Offs During Test Year
	(a)	(b)	(c)	(d)	(e)	(f)
9	Current (Estimated)	\$ 460,000		36		
10	Most Recent	368,163	Case 09-60; 8/9/09	36	368,163	
11	Next Most Recent	470,139	Case 06-174; 1/23/07	36	470,139	

Q: Are you recommending any adjustments to the Company's claim for rate case expenses?

A: Yes. After reviewing the Company's actual rate case expenses for the last three (3) rate proceedings, it appears that the requested allowance for rate case expenses is excessive. On Schedule TLM-3, I show an analysis of the normalized rate case expenses based on the average of the expenses for the

1 last three (3) rate case proceedings for the Company (Docket Nos. 10-421, 09-
2 60, and 06-174). Staff agrees with the Company's proposal to change the
3 amortization period from three (3) years to four (4) years as this change better
4 reflects the history of rate case filings made by the Company. Based on this
5 analysis Staff recommends a decrease to SWDE's claimed rate case expense
6 in the amount of \$19,344. This adjustment would result in an increase to net
7 income of \$11,480 net of taxes.

8
9 **Antenna Revenue**

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11 **Q: Is the Company proposing any changes to the allocation methodology for**
12 **antenna revenue?**

13 A: Yes. As described by Company Witness Mr. Finnicum beginning on page 20
14 of his Pre-Filed Direct Testimony, the Company is proposing a change from
15 the current practice of recognizing 100% of passive income received from cell
16 tower leases allocated to ratepayers. The Company now proposes sharing
17 these revenues with a ratio of 75% of the income going to shareholders and
18 25% to ratepayers.

19
20 **Q: Do you agree with SWDE's proposed change in recognizing antenna**
21 **revenue for ratemaking purposes?**

22 A: No. All antenna revenue should be included above-the-line and be credited to
23 SWDE's revenue requirement. SWDE is receiving revenue generated by
24 regulated assets of the Company, which assets are being paid for by
25 ratepayers. Thus, it is only fair that ratepayers should receive the full benefit
26 from rental income generated from ratepayer-supported assets. Moreover, my
27 recommended treatment of antenna revenue is consistent with other how other
28 water utilities in Delaware, namely Artesian Water and Tidewater Utilities
29 treat rental income for ratemaking purposes. Therefore, Staff's
30 recommendation is that SWDE's proposed change in the allocation of antenna
31 revenue be rejected.

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Q: Please explain any adjustments that you may have relating to revenue that the Company has included in it application.

A: Staff’s recommendation is for all antenna revenue to be credited to SWDE’s revenue requirement which results in a net adjustment of \$94,121 to test period revenues. My adjustment was based on my review of SWDE Workpaper-3A Other Revenues. This adjustment was based on a calculation of Test Period Monthly Rates normalized for the Test Year for the eight (8) cell tower leases currently under contract.

Vehicle Leasing and Related Transportation Costs

Q: Do you have any additional matters to address?

A: Yes. I performed a detailed review and analysis of the Company’s proposed adjustment for Vehicle Leasing and Related Transportation Costs in Schedule 3B-8 in the application, Mr. Loy’s Direct Testimony, and responses to data requests submitted in support of this adjustment. Based on that review, I do not propose any changes to Company’s proposed adjustment and, accordingly, I recommend that \$132,683 adjustment be accepted as filed.

Q: Does this conclude your testimony at this time?

A: Yes.